

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58051

KITSAP COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

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KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Kitsap County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the county's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the county's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the accompanying general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kitsap County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 1, 1996, on our consideration of the county's internal control structure and a report dated August 1, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Kitsap County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to vouchers, right-of-way, extensions, sampling and testing, approvals, environmental reviews, subrecipient agreements, and payments for contracted services as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*, *Catalog of Federal Domestic Assistance* and grant agreement/contract
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to in the second paragraph, which is described in the accompanying Schedule of Federal Findings. We have considered the instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Kitsap County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the general-purpose financial statements of Kitsap County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 1, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 1, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal year ended December 31, 1995, the county expended 91 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance

programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the county's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness. The condition, which is identified in the Schedule of Federal Findings accompanying this report, was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the county's compliance with requirements applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated August 1, 1996.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 1, 1996

KITSAP COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Administrative Controls Over CDBG And HOME Grant Programs Should Be Improved

Kitsap County first received Community Development Block Grant (CDBG) and HOME grant funding during 1993 and 1994, respectively. The county contracted with the City of Bremerton to administer the grants through 1995. Beginning January 1, 1996, the county began administering these grants.

These grants had the following administrative weaknesses.

- a. The county did not detail subrecipient monitoring reports enough to determine what procedures were performed to ensure grant requirements were met.
- b. Some subrecipient audit reports were missing and others were not required single audits.
- c. Expenditures were inadequately documented for one subrecipient.
- d. Appraisals for real property were missing in two out of three contracts tested.

Adequate documentation appeared to be missing because of the newness of the program and the transfer of records from the city to the county.

Because the monitoring reports failed to mention which grant requirements were looked at, and the required audit reports were either missing or inadequate, we were unable to determine whether the county met, among others, the following grant requirements:

- Davis Bacon Act
- Special tests - Tenant Occupancy
- Special tests - Home Ownership Occupancy
- Special tests - Lead-based Paint

We recommend:

- a. The county document its subrecipient monitoring reports in sufficient detail to document compliance with all applicable federal regulations.
- b. Obtain audit reports for all subrecipients who require it and ensure these audits are done in accordance with the single audit act.

Auditee's Response

The county's Department of Community Development (DCD) has established procedures that will improve controls over these grants.

DCD has developed an audit plan to be used to monitor all CDBG and HOME grant recipients. The plan prescribes audit steps that will test compliance with all grant requirements including:

- *Davis Bacon Act*
- *Tenant Occupancy*
- *Home Ownership Occupancy*
- *Lead-based Paint*

In addition to the audit plan, a position was approved in the 1997 budget. This new position will be responsible for grant recipient monitoring.

Auditor's Concluding Remarks

We appreciate the county official's commitment to resolve the issues noted in our finding. Based on their response, the recommendations are being addressed and we will review these areas again in our next audit of the county.

We wish to thank the county personnel and management for their cooperation and assistance during the audit.